

The Problem of Managerial Incentives

The recent (24-29 June) Automation Conference of the Party Central Committee highlighted the basic problem of the Seven Year Plan -- namely, to achieve a rapid increase in efficiency and productivity to offset the slower growth of the labor force. Population growth will provide an increase in labor force over the next seven years only 60 percent that of the past seven years. The Plan and the Conference were aimed at a much more rapid introduction of modern, efficient, labor-saving technology. However, as Khrushchev brought out in his speech to the Conference, the system of rewarding plant managers according to the volume of production has provided no incentive for (but incentive against) cost reduction, substitution of cheaper materials, new and better product design and above all, introduction of new types of machinery and production technology. The Central planners must either lay out a detailed plant-by-plant plan for modernization or else create effective incentives for modernization through rewards to managers. The resolution of the Central Committee called for the preparation of a detailed plan and also directed the State Committee on Wages and Labor to work out proposals for "establishing economic stimuli to encourage enterprises"....."to introduce new technology."

We don't think Mr. Khrushchev has in mind profit maximization and profit sharing by managers but the "economic stimuli" to be effective, would have to come close to this.

- 2 -

Questions on Incentives

1. What specific kind of rewards to managers does Khrushchev think will result in the kind of initiative, risk-taking and progressiveness he desires?

2. Will central planning have to become more and more detailed in order to solve the increasingly complex problems of modern industry?

3. If central planning must become more elaborate, doesn't this mean a reversal of the "decentralization" program of the past two years?